

Excerpt from DLA Onebook (DLAD 5000.4)

Chapter 4.4.4

Material Management & Accounting System

Revision: August 1998

1. This Chapter Is About:

- A. This chapter covers DCMC's role in reviewing contractors' disclosure of their Material Management & Accounting Systems (MMAS), and, as required, demonstration of those systems for compliance with the MMAS standards established by DFARS 252.242-7004.
- B. **Typical process outputs are:**
 - 1) Letter to contractor requesting MMAS disclosure
 - 2) Contractor MMAS disclosure
 - 3) Review Team's evaluation of disclosure
 - 4) Letter to contractor requesting MMAS demonstration
 - 5) Review Team's evaluation of demonstration
 - 6) Review Team's recommendation to ACO regarding MMAS compliance
 - 7) Letter requesting Corrective Action Plan (CAP), if deficiencies are found
 - 8) Letter to contractor advising of compliance/non-compliance
 - 9) Reduction/suspension of progress payments, if appropriate

2. We Do This Because:

- A. Department of Defense (DoD) policy is for all contractors to have an MMAS that reasonably forecasts material requirements, assures that costs of materials charged or allocated to contracts are valid and properly time phased, and maintains a consistent, equitable, and unbiased logic for the costing of material transactions. (Refer to DFARS 242.7202)
- B. The top level metric for this process is **Right Price**. The feeder metrics for this process are Negotiation Cycle Time, Percentage of Overage Undefined Contract Actions, and Cost Overruns on Major Programs.

3. DCMC Policy: The ACO shall evaluate the compliance of all large business contractors with the MMAS requirements in DFARS 252.242-7004 if, in the preceding fiscal year, the contractor received DoD prime contracts or subcontracts (including modifications) totaling \$70 million or more. The ACO may also recommend to PCOs to apply the requirements to other large business contractors with DoD prime contracts or subcontracts sales of \$30 million or more (but less than \$70 million) in the preceding fiscal year whenever there are indications that significant MMAS deficiencies exist. Such indications may be revealed during progress payment reviews, incurred cost audits, proposal analyses, estimating system reviews, etc. If the PCO agrees, the PCO will provide notice to the contractor that paragraphs (d) and (e) of DFARS 252.242-7004 apply. DFARS 252.242-7004 requirements shall not apply to any small businesses, educational institutions, or nonprofit organizations. Additionally, all CAO personnel shall honor contractor requests to protect MMAS information (including information about system deficiencies) as privileged or confidential, subject to the stipulations in DFARS 252.242-7004 (i.e., the contractor notifies the Government representative to whom the information is submitted that the information is to be protected, and also places an appropriate legend on the face of the

documents submitted). The CAO shall enter the results of DCMC's review into the Contractor Information Service's Contractor Systems Status Table and ensure the information is kept current, complete, and accurate.

4. ***The Process and Who Is Responsible:***

A. ***Process Input:***

- 1) Contractor's disclosure
- 2) Review Team's evaluation of disclosure, and risk/benefit assessment (for deciding whether to require an MMAS demonstration)
- 3) Contractor's MMAS demonstration (if required)
- 4) Review Team's evaluation of disclosure
- 5) Review Team's evaluation of contractor's CAP (when required)

B. ***Sub-Processes:***

- 1) Review Team coordination meetings involving the assigned DCAA auditor and DCMC technical specialist(s), and, when required, the contractor.
- 2) Contractor's corrective actions

C. ***Process Mechanisms:***

- 1) Government Review Team reports
- 2) Contractor's CAP
- 3) Integrated Surveillance Plan
- 4) Contractor Information Service

D. ***Process Controls:***

- 1) DFARS 242.72, Contractor Material Management and Accounting System
- 2) DFARS 252.242-7004, Material Management and Accounting System
- 3) DCAA Contract Audit Manual Vol 1 -- Chapter 5-700 Section 7

E. ***Process Narrative Flow Chart:***

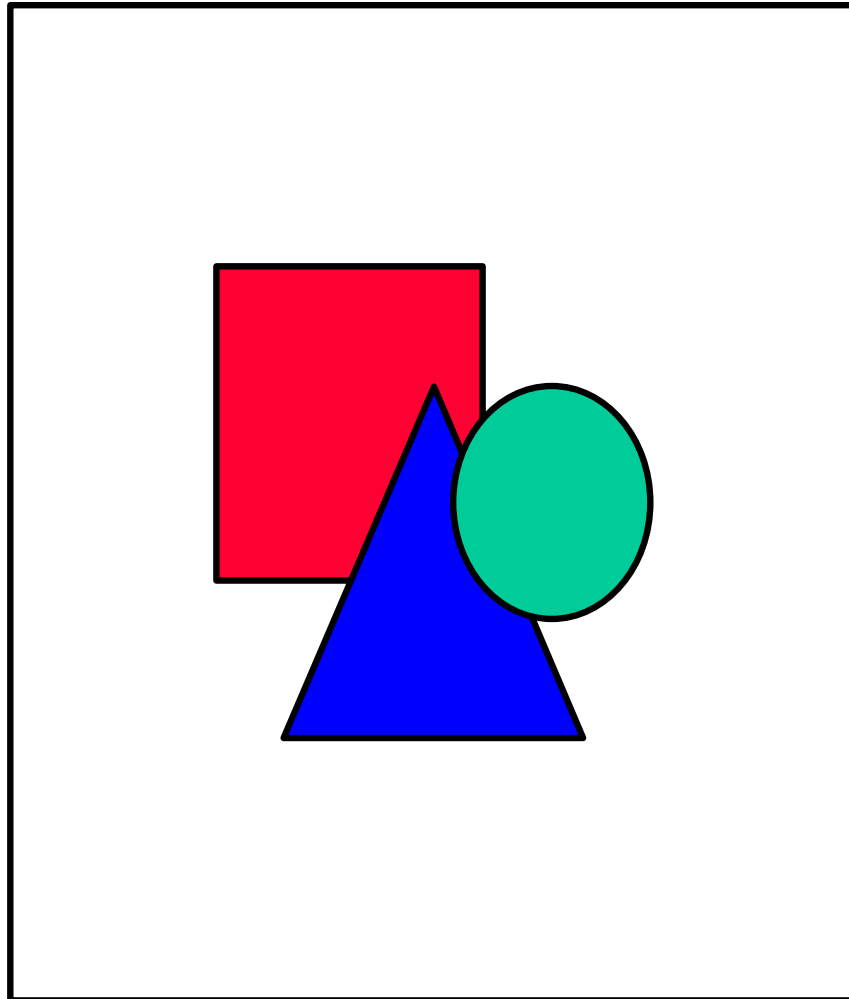


Figure 4.4.4 -- Material Management & Accounting System Process Flow Chart

F. Who Does What and When They Do It:

- 1) **Identify Contractors Who Must Disclose Their MMAS:** As noted above in paragraph 3., large business contractors are required to disclose their MMASs in writing to the ACO if DoD sales during the preceding fiscal year were \$70 million or more, or the sales were \$30 million or more and the PCO has notified the contractor that paragraphs (d) and (e) of DFARS 252.242-7004 apply. To ensure that all contractors who are required to disclose their MMAS do so, the ACO shall determine the amount of DoD prime contract or subcontract awards (including modifications) made during the preceding fiscal year to the large business contractors for which the ACO has cognizance. That determination should be made as soon as practicable after the fiscal year's end. If a large business contractor has exceeded the \$70 million in DoD sales threshold during the preceding fiscal year, but has not disclosed its MMAS, the ACO shall write the contractor to request disclosure. The ACO should allow the contractor a reasonable amount of time to respond to the request for an initial disclosure (e.g., between 30 and 60 days). Notwithstanding, DFARS 252.242-7004 requires the contractor to disclose to the ACO any significant changes in its

MMAS within 30 days of the changes' implementation. In those cases where there is a disagreement between the contractor and ACO that a change has actually occurred, the ACO should allow the contractor 30 days to respond with a disclosure, rationale why the changes are not significant or a statement that there have, in fact, been no changes. See paragraph 4.F.13) for information about disclosure requirements for periodic reviews.

- 2) **Form Review Team:** The ACO shall form a team from both the CAO and DCAA to review the contractor's MMAS disclosure. If the ACO determines that the contractor must demonstrate its MMAS (see paragraphs 4.F.3) and 4.F.4)), the same team should perform the Government evaluation of the demonstration. The ACO shall appoint the team leader. The ACO should appoint the assigned DCAA auditor as the team leader, since MMASs are a type of accounting system, and accounting systems are an area of particular DCAA expertise. The ACO shall ensure the participation of CAO specialists with expertise relevant to the review (e.g., Industrial Specialists, Price/Cost Analysts, Industrial Property Management Specialists, etc.). When the team leader is not from the CAO, the ACO may appoint a CAO point of contact to serve as the ACO's day-to-day representative for such aspects of the review as personnel and technical requirements, scope of the review or evaluation, areas of special interest to the ACO, meetings with the contractor, and scheduling.
- 3) **Conduct Disclosure Review:** The team shall review the documentation submitted by the contractor to ensure that it accurately describes the contractor's MMAS policies, procedures, and practices in sufficient detail that the team can make an informed recommendation to the ACO (backed with rationale) that the contractor's system, as described, does or does not comply with the standards in DFARS 252.242-7004(f). This applies to initial and changes disclosures, and to periodic reviews, as well. (See paragraph 4.F.13) for information about periodic reviews). To minimize the impact of the review on both the Government and the contractor, the review team shall tailor the scope of its review to take full advantage of the day-to-day work done by both the CAO and DCAA Field Audit Office. Examples of such day-to-day work include progress payment reviews (Chapter 4.5.2), estimating system reviews (Chapter 4.4.3), proposal analyses (Chapter 4.2.5) and audits, purchasing systems reviews (Chapter 4.4.1), property control system analyses (Chapter 4.7.3), and bill of materials management systems and production planning and control systems reviews done by DCAA. Additionally, the contractor's disclosure should contain a self-assessment of MMAS compliance with the DFARS 252.242-7004(f) standards, including an identification of known deficiencies. The review team shall conduct both an entrance and exit conference with the contractor, and report its findings and recommendations to the ACO in writing. For initial disclosures (see paragraph 4.F.4)), or changes disclosures and periodic reviews where the ACO has approved a team recommendation to require a system demonstration, the team may delay the exit conference and written report until after the contractor has completed the demonstration. A review team recommendation to require a demonstration for

changes disclosures or periodic reviews should be documented, with rationale, in a memorandum to the ACO. The memorandum need not be lengthy, but should fully discuss the reasons for the team's recommendation. The review team leader shall advise the ACO and contractor of findings during the review and at the exit conference, and make every effort to resolve questions of fact during the course of the review (DFARS 242.7205).

- 4) ***Determine Whether a Demonstration Is Needed:*** The ACO shall require all contractors making an initial MMAS disclosure to demonstrate system compliance with the requirements in DFARS 252.242-7004(f). The ACO may also, after receipt of a review team recommendation for demonstration, or consultation with the auditor and/or review team leader, require demonstrations of compliance for changes disclosures or periodic reviews. The ACO shall decide whether demonstrations for changes disclosures or periodic reviews are needed by balancing the financial risks the MMAS may pose to the Government against the costs and effort -- for both the Government and contractor -- that a demonstration requires. The ACO shall document the decision with a memorandum to file. Such memoranda should be relatively short and state only the essential facts that influenced the ACO's decision. Additionally, they need only refer briefly to any information that can be found in attachments such as audit reports, systems review reports, review team recommendations, etc. These memoranda should be filed in the contractor general file.
- 5) ***Determine Requirements for the Demonstration:*** The review team shall (as with paragraph 4.F.4) above) determine the requirements for the contractor's demonstration of its system by balancing the financial risks that the MMAS may pose to the Government against the costs and efforts -- for both the Government and contractor -- those requirements will cause. The team's demonstration requirements should focus on the known or suspected areas of risk that the review team has identified from audit reports, contractor systems review reports, or documents submitted by the contractor. The review team leader shall obtain the coordination and concurrence of the ACO and auditor for the demonstration requirements, after discussion with the contractor. Discussion with the contractor allows for clarification of issues and the avoidance of unneeded costs and efforts.
- 6) ***Evaluate the Demonstration:*** The review team shall evaluate the demonstration results to assess the compliance of the contractor's MMAS with the standards in DFARS 252.242-7004(f). The review team shall conduct an entrance conference (if one has not already been done in connection with the start of a disclosure or subsequent review) and exit conference with the contractor, and report its findings and recommendations to the ACO in writing. If there are significant MMAS deficiencies, the team shall provide in its report an estimate of the impact on the Government from those deficiencies. The review team leader shall advise the ACO and contractor of findings during the review and at the exit conference, and make every effort to resolve questions of fact (DFARS 242.7205).

- 7) ***Notify the Contractor of Deficiencies:*** The ACO shall, immediately upon receipt, provide a copy of the review team's report to the contractor. This applies to all review team reports, regardless of whether they are for a disclosure, demonstration, or subsequent review. The ACO shall review the report, and, if there are no deficiencies, notify the contractor of that determination in writing as soon as practicable. The Government neither approves nor disapproves a contractor's MMAS, and all ACO notifications (including those mentioned in 4.F.10. below) should avoid such an implication (DFARS 242.7205(b)(4)(ii)). If significant deficiencies are identified in the review team's report, the ACO shall write the contractor to request a written response to the findings of deficiencies within 30 days. The ACO's letter shall include language that if the contractor agrees with the findings, the contractor has 60 days to correct the deficiencies or submit a corrective action plan that contains specific actions and milestones. Additionally, the letter shall advise that if the contractor disagrees with any of the findings of deficiencies, the contractor must include its rationale for disagreeing in the response.
- 8) ***Evaluate the Contractor's Response:*** The ACO shall consult with the auditor in reviewing the contractor's response, and then shall determine whether:
 - I. The MMAS contains deficiencies that need correction.
 - II. The deficiencies are significant enough to warrant suspension or reduction of progress payments or public voucher payments.
 - III. The contractor's proposed corrective actions (if any) are adequate to correct the deficiencies.
- 9) ***Suspend or Reduce Payments:*** If the ACO determines that there are one or more significant MMAS deficiencies, the ACO shall reduce progress payments by an appropriate percentage based on the affected costs (see FAR 32.503-6, DFARS 232.503-6, and Chapter 4.5.2) and/or suspend questionable costs on public vouchers on public vouchers (see FAR 42.803, DFARS 242.803, and Chapter 4.3.1). The maximum payment adjustment is the adverse material impact on the Government that the review team identified in its report to the ACO. The ACO should use the maximum adjustment when the contractor did not submit a corrective action plan with its response or the plan is unacceptable. If an acceptable corrective action plan was submitted, the ACO should consider the quality of the contractor's self-assessment, demonstration, and/or corrective action plan in determining the appropriate suspension or reduction percentage. As the contractor makes progress in implementing its accepted corrective action plan, the ACO should reinstate portions of the withheld amounts commensurate with the contractor's progress. However, the ACO shall not fully reinstate withheld amounts until the contractor completely corrects the deficiencies or the impacts become immaterial.
- 10) ***Notify Contractor of the ACO's Determination:*** The ACO shall notify the contractor in writing (with copies to the auditor and other review team members) of:
 - I. A finding of no deficiencies (after consideration of the contractor's response); or,

- II. The deficiencies that need correction.
- III. The acceptability of the contractor's corrective action plan (if one was submitted) or the need for a corrective action plan.
- IV. Any decision to reduce or suspend progress payments or public voucher costs.

11) ***Monitor the Contractor's Corrective Actions:*** The ACO and auditor shall monitor the contractor's corrective actions, if any are needed. If the contractor fails to make adequate progress, the ACO shall take further action. Further actions that the ACO may consider are listed in DFARS 242.7205(b)(5). Those include:

- I. Elevating the issue to higher management.
- II. Further reducing or suspending progress payments.
- III. Notifying the contractor of the inadequacy of the contractor's estimating system and/or cost accounting system.
- IV. Issuing cautions to buying activities regarding the award of future contracts.

12) ***Note MMAS Deficiencies in Technical and Special Analyses:*** Once the ACO determines that there is a significant MMAS deficiency, until it is corrected, all Contract Pricing Technical and Special Analyses shall contain a recommendation relating to cost or pricing data adjustments necessary to protect the Government's interests (DFARS 242.7205(b)(4)(iii)) and Chapter 2.4.5).

13) ***Periodic Reviews:*** Once a contractor's MMAS has been initially determined compliant with DFARS 252.242-7004(f), it should be reviewed periodically once every three years. However, the ACO, in consultation and coordination with the auditor, may make the three-year period longer or shorter, based upon the financial risks that they believe the contractor's MMAS may pose to the Government. For instance, previously unknown MMAS changes or deficiencies may be disclosed during price proposal analyses and audits or contractor systems reviews such as purchasing and estimating. These changes or deficiencies may warrant either a request to the contractor to disclose changes (see 4.F.1)) or a shortening of the period between reviews, and even, perhaps, a new system demonstration. Notwithstanding, a contractor whose MMAS the ACO has already determined adequate shall not be required to submit additional disclosure statements, unless the contractor's policies, procedures, or practices have changed in the interim. Similarly, once the contractor demonstrates that its MMAS complies with DFARS 252.242-7004(f), system demonstrations need not be required for the periodic reviews if the contractor's internal audits of its MMAS are reasonably current and contain sufficient transaction tests to demonstrate the system's compliance with each DFARS 252.242-7004(f) standard.

5. ***Additional Process Information:***

- A. Defense Acquisition Deskbook
- B. DCMC Business Plan
- C. Metric Guidebook

6. ***Competencies and Certifications Required to Execute This Process:***
 - A. ***Training or competency requirements:*** DCMC Training Matrix (TBD)
 - B. ***Certifications:*** ACOs shall be warranted and DAWIA certified at the level commensurate with the position held.
7. ***PLAS Code:*** 113 Material Management and Accounting System
Process Unit Count: Completion of a MMAS review
8. ***Points of Contact:***
DCMC Headquarters:
Process Owner: Mr. Bill Lonstein, Contractor Capability and Analysis Team (DCMC-OD)
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